

Message Text

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ACTION AF-04

INFO OCT-01 SS-14 ISO-00 INR-05 CIAE-00 DODE-00 EB-03

NSC-05 NSCE-00 IGA-01 IO-06 OMB-01 PM-03 H-01 L-01

SP-02 PRS-01 /048 W

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FM AMEMBASSY ADDIS ABABA

TO SECSTATE WASHDC 2527

INFO AMCONSUL ASMARA

C O N F I D E N T I A L SECTION 1 OF 2 ADDIS ABABA 0566

LIMDIS

E.O. 11652: GDS

TAGS: ECON EGIN ET

SUBJ: ASSESSMENT OF EPMG MILITARY BUDGETS

REF: A) 76 ADDIS 44 B) 76 ADDIS 9722 C) 75 ADDIS 13860

SUMMARY:THE EMBASSY ESTIMATESTHAT MILITARY EXPENDITURES DURING
EFY 68 (JULY 75 - JUNE 76) WERE US \$145 MILLION COMPARED TO
US \$96 MILLION FOR EFY 67 (JULY 74 - JUNE 75), AND INCREASE OF
50 PERCENT. US \$80 MILLION WERE FOR IN-COUNTRY COSTS WHILE
US 65 MILLION WERE FOR OFFSHORE PROCUREMENT. DEFENSE
EXPENDITURES FOR EFY 68 WERE ROUGHLY 22 PERCENT OF TOTAL
EXPENDITURES AND 5 PERCENT OF GNP (CURRENT PRICES). FOR EFY 69
(JULY 76 - JUNE 77) THE EPMG CARRIES US\$104 MILLION IN ITS
PUBLISHED BUDGET, WHICH IS CLEARLY TOO LOW. EMBASSY EXPECTS
EXPENDITURES TO BE ROUGHLY US \$175 - 185 MILLION OR
APPROXIMATELY 25 PERCENT OF TOTAL EXPENDITURE AND 5.5 PERCENT
OF GNP. END SUMMARY.

1. THE EMBASSY HAS PREPARED THE FOLLOWING TABLE BASED ON PUB-
LISHED ETHIOPIAN BUDGET DOCUMENTS FOR ETHIOPIAN FY 1967, 1968
AND 1969 (THE EDY IS JULY - JUNE EFY 1967 CORRESPONDS TO JULY
1974 - JUNE 1975, ETC.). THE LINE ITMES SELECTED REPRESENT
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MAJOR AREAS OF ACTIVITY WHEREAS THOSE OMITTED INVOLVE RELATIVELY
MINOR EXPENDITURES. NEVERTHELESS, THE TOTALS FOR GROUND FORCES,
AIR FORCE AND NAVY AS WELL AS TOTAL DEFENSE EXPENDITURES INCLUDE
ALL EXPENDITURES IN EACH CATEGORY. THESE FIGURES FOR EFY 67
EXCLUDE GRANT MILITARY ASSISTANCE BUT PRESUMABLY INCLUDE FMS
CASH AND CREDIT OUTLAYS. UNFORTUNATLEY WE ARE LESS CERTAIN ABOUT
EXPENDITURES FOR EFY 68 BECAUSE THE EPMG DID NOT PUBLISH A

SUPPLEMENTARY BUDGET AT THE END OF THE FY AS HAD HERETOFORE BEEN THE CASE. CONSEQUENTLY, WE ONLY HAVE THE ORIGINAL BUDGET TO WORK WITH, AS FAR AS DOCUMENTATION IS CONCERNED. WE HAVE IT ON GOOD AUTHORITY THAT THE EPMG SPENT AN ADDITIONAL 70 MILLION BIRR IN REGULARLY BUDGETED FUNDS PLUS 55 MILLION BIRR IN UN-BUDGETED RETURNS FROM A MINISTRY OF FINANCE GOLD SALE FROM ITS UNRECORDED GOLD STOCKS (SEPT/OCT 1975). WE DO NOT KNOW TO WHICH LINE ITEMS THESE ADDITIONAL FUNDS WERE APPLIED BUT WE ASSUME THAT THEY WERE USED PRIMARILY TO FINANCE OFFSHORE PROCUREMENT. THIS REDUCES THE SIGNIFICANCE OF THE COMPARISONS OF ALL LINE ITEMS EXCEPT PERSONAL AND CONSTRUCTION EXPENDITURES (WHICH WE THINK ACCURATELY REFLECT EPMG EXPENDITURE EXPECTATIONS FOR THOSE CATEGORIES), ESPECIALLY BETWEEN EFY 67 AND 68. FOR EFY 69 WE ONLY HAVE THE BUDGETED FIGURES; IT IS UNLIKELY THAT THE EPMG ITSELF NOW KNOWS WHAT ITS FINAL DEFENSE BILL WILL BE FOR THIS FY.

DEFENSE EXPENDITURES
(US MILLIONS - EFY) 1

	1967 (JULY 74- JUNE 75)	1968 (JULY 75- JUNE 76)	1969 (JULY 76- JUNE 77)	PERCENT 68/67	PERCENT 69/68
I. GROUND FORCES	75.2	63.6	72.1	-15	13
A. PERSONAL SERVICES	45.8	52.8	55.5	15	5
B. CONSTRUCTION & EQUIPMENT	.3	3.7	-	1133	-
C. MATERIALS & CONFIDENTIAL					

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SUPPLY	25.5	5.4	13.7	-79	154
II. AIR FORCE	12.6	11.5	18.7	-8	63
A. PERSONAL SERVICES	6.6	6.7	6.8	2	1
B. CONSTRUCTION & EQUIPMENT	.8	.8	3.2	-	300
C. MATERIALS & SUPPLY	4.6	3.4	7.5	-26	121
III. NAVY	5.1	4.3	5.6	-16	30
A. PERSONAL SERVICES	3.2	3.3	3.8	3	15
B. CONSTRUCTION & EQUIPMENT	-	-	-	-	-
C. MATERIALS & SUPPLY	1.3	.4	1.0	-69	275
IV. MILITARY CONSTRUCTION	-	-	3.4	-	-
V. TOTAL (I THRU IV)	92.1	79.3	99.8	-12	26
VI. TOTAL DEFENSE					

EXPENDITURE 96.6 84.7 104.1 -12 23

1 EFY EQUALS JULY - JUNE SO EFY 1967 EQUALS JULY 74-
JUNE 75, ETC.

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ACTION AF-04

INFO OCT-01 SS-14 ISO-00 INR-05 CIAE-00 DODE-00 EB-03
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R 010851Z JAN 77
FM AMEMBASSY ADDIS ABABA
TO SECSTATE WASHDC 2528

C O N F I D E N T I A L SECTION 2 OF 2 ADDIS ABABA 0566

LIMDIS

E.O. 11652: GDS
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2. SEVERAL INTERESTING CHANGES HAVE BEEN MADE IN THE BUDGET FOR EFY 69 COMPARED WITH EFY 68. FIRST, THERE IS LITTLE INCREASE FOR PERSONAL COSTS. THIS COMES AS A SURPRISE SINCE WE UNDERSTAND NEW UNITS ARE BEING ESTABLISHED. POSSIBLY, HOWEVER, THESE UNITS WILL NOT HAVE A FULL BUDGETARY IMPACT UNTIL EFY 70. NEVERTHELESS, EVEN WHILE IN TRAINING STATUS THERE SHOULD BE MORE OF A PERSONAL COST INCREASE FOR THESE UNITS THAN SEEMS TO BE REFLECTED IN THIS BUDGET. SECOND, A SEPARATE LINE ITEM FOR DEFENSE CONSTRUCTION WAS ESTABLISHED IN THE EFY 69 BUDGET. THIS PROBABLY ACCOUNTS FOR THE SHARP DECREASE IN THE LINE ITEM FOR CONSTRUCTION FOR THE GROUND FORCES. THIRD, THERE HAVE BEEN SHARP (BUT STILL RATHER MODEST) INCREASES FOR MOTOR VEHICLES AND NON-PERSONAL SERVICES. FOURTH, THE TERRITORIAL ARMY HAS BEEN INCLUDED IN GROUND FORCES.

3. EMBASSY BELIEVES THAT MILITARY EXPENDITURE IN EFY 68 WAS APPROXIMATELY US \$145 MILLION (INITIAL BUDGET OF US \$85 MILLION, ADDITIONAL BUDGETED EXPENDITURE OF US \$34 MILLION AND
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GOLD SALE OF US \$26 MILLION)M THIS IS 50 PERCENT HIGHER THAN IN EFY 67, REPRESENTS 22 PERCENT OF TOTAL EXPENDITURES (US \$645.6 MILLION BUDGETED EXPENDITURE PLUS US \$26.7 MILLION IN GOLD SALES OR US \$672.3 MILLION), IS 28 PERCENT OF REVENUES RAISED FROM ETHIOPIAN SOURCES, AND ROUGHLY 5 PERCENT OF GNP (CURRENT PRICES). FROM WHAT WE KNOW OF ETHIOPIAN OFFSHORE PROCUREMENT, IT APPEARS THAT ROUGHLY US \$65 MILLION WAS FOR THAT PURPOSE LEAVING AROUND US \$80 MILLION FOR IN-COUNTRY SPENDING (ALTHOUGH SOME OF THESE EXPENDITURES -E.G. POL, LOCAL PURCHASES OF VEHICLES, ETC.)- HAVE DIRECT FOREIGN EXCHANGE EFFECTS). THE AMOUNT SPENT ON LOCAL COSTS (US \$80 MILLION) IS REMARKABLY SIMILAR TO THE ORIGINAL DEFENSE BUDGET (US \$85 MILLION) AND COULD REFLECT AN EPMG DECISION TO BUDGET IN PUBLIC DOCUMENTS ONLY FOR THESE COSTS AND COVER OFFSHORE PROCUREMENT BY UNPUBLISHED BUDGETED EXPENDITURES. THIS HAS THE ADVANTAGE OF OBSCURING EPMG INTENTIONS IN THIS AREA. IT IS NOT CLEAR WHETHER THESE EXPENDITURES WILL EVER COME TO LIGHT IN OFFICIAL PUBLICATIONS. AS NOTED ABOVE NO SUPPLEMENTARY BUDGET WAS PUBLISHED FOR EFY68 AND IT IS STILL TOO EARLY FOR THE EPMG TO RELEASE ACTUAL EXPENDITURES FOR EFY 68.

4. EPMG DEFENSE EXPENDITURES FOR EFY 69 ARE DIFFICULT TO ESTIMATE. THE AMOUNT CARRIED IN THE BUDGET IS OBVIOUSLY MUCH TOO LOW AND PROBABLY REFLECTS EPMG EXPECTATIONS FOR IN-COUNTRY EXPENDITURES. WE ESTIMATE PROCUREMENT FROM THE US TO RUN FROM US \$60 - 80 MILLION (OUTLAY BASIS) AND THE EPMG WILL UNDOUBTEDLY PROCURE ADDITIONAL GOODS AND SERVICES FROM OTHER SOURCES. WE DO NOT KNOW THE FINANCIAL IMPACT OF SUCH PROCUREMENT, HOWEVER, AS MUCH OF IT COULD WELL BE ON GRANT OR CREDIT TERMS. ACCORDING TO ONE SOURCE, THE EPMG HOPES TO HOLD IN-COUNTRY EXPENDITURES TO ROUGHLY US \$104 MILLION (THE BUDGETED AMOUNT) AND OFFSHORE PROCUREMENT TO US \$50 -55 MILLION. THIS SEEMS LOW FOR OFFSHORE EXPENDITURES AND THIS ESTIMATE PROBABLY DOES NOT INCLUDE THE POSSIBILITY OF ANOTHER GOLD SALE BY THE MINISTRY OF FINANCE. (WE UNDERSTAND, HOWEVER, THAT THE MINISTRY'S REMAINING UNRECORDED GOLD HOLDINGS ARE NOT MUCH MORE THAN

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US \$20 -25 MILLION AT CURRENT PRICES AND THE EPMG MAY BE RELUCTANT TO TAP THIS RESERVE AGAIN.) IT SEEMS MORE LIKELY THAT TOTAL DEFENSE EXPENDITURES WILL BE ON THE ORDER OF US \$175 - 185 MILLION. THIS WOULD BE ROUGHLY 25 PERCENT OF TOTAL BUDGETARY EXPENDITURES FOR EFY 69 AND 5.5 PERCENT OF GNP (CURRENT PRICES).
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Message Attributes

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